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Dynasty Fine Wines Group Limited
王 朝 酒 業 集 團 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 828)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The board of directors (the "**Board**") of Dynasty Fine Wines Group Limited (the "**Company**") announce herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2015, prepared on the basis set out in Note 2 below, together with the comparative figures for the previous year as follows:

REASON FOR DELAY IN PUBLICATION OF THE 2015 ANNUAL RESULTS

For information on the delay in publication of the 2015 annual results, please refer to the announcements of the Company dated 31 March 2016.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

		Year ended 31 December	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**627,207**	669,257
Cost of sales	*4*	**(498,509)**	(619,625)
Gross profit		**128,698**	49,632
Distribution expenses	*4*	**(139,046)**	(291,620)
Administrative expenses	*4*	**(202,968)**	(162,853)
Other income, gains and losses	*5*	**7,000**	10,228
Operating loss		**(206,316)**	(394,613)
Finance income	*6*	**5,004**	7,254
Finance costs	*6*	**(5,637)**	(8,792)
Finance costs – net	*6*	**(633)**	(1,538)
Loss before income tax		**(206,949)**	(396,151)
Income tax expense	*7*	**(18)**	(47)
Loss for the year		**(206,967)**	(396,198)
Loss attributable to:			
Owners of the Company		**(205,551)**	(393,523)
Non-controlling interests		**(1,416)**	(2,675)
Loss per share attributable to owners of the Company for the year *(expressed in HK$ cents per share)*			
– Basic and diluted loss per share	*9*	**(16.47)**	(31.53)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Loss for the year	**(206,967)**	(396,198)
Other comprehensive loss		
Currency translation differences	**(34,046)**	(3,654)
Total comprehensive loss for the year	**(241,013)**	(399,852)
Attributable to:		
– Owners of the Company	**(238,444)**	(397,093)
– Non-controlling interests	**(2,569)**	(2,759)

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

		As at 31 December	
		2015	2014
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**317,788**	472,292
Leasehold land and land use rights		**57,119**	62,238
Goodwill		**–**	–
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
		374,907	534,530
Current assets			
Trade receivables	*10*	**97,579**	150,830
Other receivables, deposits and prepayments	*10*	**59,985**	84,061
Inventories		**587,647**	673,782
Prepaid income tax		**–**	3,660
Restricted cash		**34,051**	9,158
Cash and cash equivalents		**80,891**	134,445
		860,153	1,055,936
Total assets		**1,235,060**	1,590,466
EQUITY			
Equity attributable to owners of the Company:			
Share capital		**124,820**	124,820
Other reserves		**1,164,499**	1,199,229
Accumulated losses		**(817,954)**	(614,240)
		471,365	709,809
Non-controlling interests		**16,943**	19,512
Total equity		**488,308**	729,321
LIABILITIES			
Current liabilities			
Trade payables	*11*	**326,104**	299,090
Other payables and accruals	*11*	**354,121**	483,597
Borrowings		**66,527**	52,449
Current income tax liabilities		**–**	26,009
		746,752	861,145
Total liabilities		**746,752**	861,145
Total equity and liabilities		**1,235,060**	1,590,466

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Room E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding and trading of wine products. The principal activities of the subsidiaries are manufacturing and sale of wine products and unprocessed wine.

The shares of the Company ("**Shares**") were listed on the Main Board of the Stock Exchange ("**Stock Exchange**") on 26 January 2005. On 22 March 2013, trading of the Shares of the Company were suspended on the Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank facilities for the foreseeable future. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.2 Investigation and prior year adjustments

In 2013, the Company was informed by its auditors that they had received certain anonymous allegations which might have an impact to the consolidated financial statements of the Company in relation to the sales arrangements with certain distributors, discrepancies in inventories held by the Group, recognition and classification of selling expenses and certain other matters. In response to these allegations, the audit committee of the Company ("**Audit Committee**") commissioned an independent investigation ("**Investigation**") involving third party consultants to investigate certain of these allegations. The Investigation was completed in 2016.

During the course of the preparation of the consolidated financial statements of the Company as at 31 December 2015 and for the year then ended, the directors have taken into account of the following findings of the Investigation.

(i) Sales arrangements with certain distributors

In 2010, the Group started a sales arrangement with a key distributor. Under this sales arrangement, the goods were shipped from the Group's manufacturing plants to certain offsite warehouses. The Group was responsible for the continuing management of the goods stored in the offsite warehouses, bore the inventory risk before the shipments to the downstream distributors and was obliged to assist the distributor to identify downstream distributors and end customers to further distribute the goods. The Investigation has further revealed that the Group had similar sales arrangements with other distributors from 2009 to 2012. Since 2013, the Group has stopped entering into this kind of sales arrangement with the relevant distributors, although delivery of goods to the downstream distributors and end customers under this sales arrangement has continued up to date.

Based on the findings of the Investigation, the directors considered the revenue arising from these sales arrangements should be recognised at the time when the goods were shipped to the downstream distributors or end customers as instructed by the distributors, i.e., when the actual risks and rewards associated with these goods were transferred to the downstream distributors or end customers outside of the Group.

(ii) Discrepancies in inventories

Based on various internal documents addressing the quality issues of the goods of the Group prepared in 2012 and 2013 identified in the Investigation, the Group became aware that there were significant balance of obsolete inventories stored in various warehouses of the Group, in particular, those offsite warehouses as mentioned in (i) above. Certain inventory records of the Group relating to 2014 and prior years, as revealed by the Investigation and uncovered by management, were not properly maintained.

In response to the findings above, the Group reconstructed its inventory records from 31 December 2014 onwards based on the results of the physical counts of inventory balance at 31 December 2014 and 31 December 2015. The inventory records prior to 31 December 2014 could not be reconstructed by the Group as a substantial number of documents supporting the movements of inventories and other supporting documents were missing. The Group performed a reconciliation of inventory balances between the physical count results and the accounting records of inventory at 31 December 2014. The net aggregated unexplained difference made up by different inventory items between the physical count result and the accounting records of inventory amounted to HK$53,148,000 was recognised as stock loss for the year ended 31 December 2014 based on the judgement and estimation made by the Group.

Besides, the Group identified significant balances of obsolete inventories, including unsellable finished goods due to quality issue, amounting to HK$244,451,000 during the physical count of inventory balances at 31 December 2014. Together with other adjustments, provisions for inventory write-down of HK$210,244,000 was charged to the Group's consolidated financial statements for the year ended 31 December 2013, while the related balance as at 31 December 2014 was HK$263,389,000.

The directors considered that the events leading to the discrepancies in inventories might have happened in and/or prior to 2014. However, due to the missing supporting documents and inventory records, the Group was unable to quantify the impact, if any, in and prior to 2014. Under the circumstances the directors considered that the abovementioned accounting treatments represented a pragmatic way to record the unexplained differences between the physical count results and the accounting records and the obsolete inventories identified.

(iii) Recognition and classification of selling expenses

Based on the findings of the Investigation, the directors considered that certain of the selling expenses in relation to the sales arrangement described in (i) above had not been recorded in the proper reporting periods in accordance with the arrangements and other documents. Also, as revealed by the Investigation and uncovered by management, certain accounting records and supporting documents in relation to these selling expenses incurred in and prior to 2014 were not properly maintained. Although the Group has attempted to reconstruct its records in relation to selling expenses, due to the loss of the relevant records and documents, the Group was unable to accurately and completely reallocate these selling expenses to the relevant accounting periods in and prior to 2014.

Further, during the process of reconstructing the selling expenses records, the Group considered that certain marketing expenses reimbursed to the distributors or incurred in other marketing activities previously recorded as distribution expenses were related to the sales transactions with the distributors, and thus should have been adjusted and accounted for as a reduction of the revenue earned from the distributors. Due to the loss of the relevant records and documents, the Group was unable to quantify the impact, if any, in and prior to 2014.

In response to the findings above, the Group was able to reconstruct its records in relation to selling expenses for the year ended 31 December 2015.

2.3 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2015:

- Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'

- Amendments from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments'

- HKFRS 15, 'Revenue from contracts with customers'

- HKFRS 16, 'Leases'

There are no other HKFRSs interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 SEGMENT INFORMATION

In accordance with the Group's internal reporting, management has determined the operating segments to be red wines, white wines and all other products.

The chief operating decision maker considers the business from product perspective. Management separately considers the red wines and white wines. All other segments primarily relate to the sale of sparkling wines, brandy and icewine.

The key management team assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines *HK$'000*	White wines *HK$'000*	All other products *HK$'000*	Total group *HK$'000*
For the year ended 31 December 2015				
Revenue	**491,306**	**131,129**	**4,772**	**627,207**
Gross profit	**91,718**	**35,502**	**1,478**	**128,698**
Provision of inventories	**(27,933)**	**(1,895)**	**(2,743)**	**(32,571)**
Depreciation and amortisation	**(26,807)**	**(6,790)**	**(247)**	**(33,844)**
For the year ended 31 December 2014				
Revenue	529,893	133,494	5,870	669,257
Gross profit	13,967	33,445	2,220	49,632
Provision of inventories	(42,631)	(11,044)	530	(53,145)
Depreciation and amortisation	(31,481)	(7,475)	(329)	(39,285)

A reconciliation of total segment gross profit to total loss before income tax is provided as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Gross profit for reportable segments	**128,698**	49,632
Other income, gains and losses	**7,000**	10,228
Distribution expenses	**(139,046)**	(291,620)
Administrative expenses	**(202,968)**	(162,853)
Operating loss	**(206,316)**	(394,613)
Finance costs – net	**(633)**	(1,538)
Loss before income tax	**(206,949)**	(396,151)

The amounts of total assets and liabilities for each reportable segment are not regularly provided to the chief operating decision maker.

The Group's customer base is diversified and no (2014: Nil) external customers with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within the People's Republic of China (the "**PRC**").

4 EXPENSE BY NATURE

	2015	2014
	HK$'000	*HK$'000*
Raw materials and consumables used	**254,286**	281,065
Changes in inventories of finished goods and work in progress	**8,077**	76,521
Processing and assembling expenses	**21,592**	24,291
Advertising, marketing, and other incidental promotion expenses	**28,451**	125,788
Consumption tax of domestic sales and other taxes	**62,605**	66,169
Employee costs including directors' emoluments	**152,133**	170,196
Transportation and storage expenses	**35,376**	29,714
Travelling expenses	**7,750**	10,937
Depreciation and amortisation	**51,490**	58,904
Consultancy and professional fee	**4,597**	5,871
Operating lease payments	**8,259**	24,317
Auditors' remuneration	**5,437**	5,033
Provision for impairment in trade and other receivables	**3,595**	7,687
Provision for impairment in inventories	**32,571**	53,145
Provision for impairment in fixed assets	**82,317**	–
Other expenses	**81,987**	134,460
Total of cost of sales, distribution expenses and administrative expenses	**840,523**	1,074,098

5 OTHER INCOME, GAINS AND LOSSES

	2015	2014
	HK$'000	*HK$'000*
Write-off of long-aged trade and other payables and advance from customer	**3,697**	–
Government grants	**1,542**	9,336
Loss on disposal of property, plant and equipment	**(472)**	(488)
Site use fee of chateau	**1,120**	–
Others	**1,113**	1,380
	7,000	10,228

6 FINANCE COSTS – NET

	2015	2014
	HK$'000	*HK$'000*
Finance income – Interest income	**5,004**	7,254
Finance costs – Interest expense on bank borrowings	**(5,637)**	(8,792)
Finance costs – net	**(633)**	(1,538)

7 INCOME TAX EXPENSE

	2015	2014
	HK$'000	*HK$'000*
Current tax:		
– Current tax on profits for the year	**18**	47
Total current tax	**18**	47
Deferred tax:		
– Total deferred tax	**–**	–
Income tax expense	**18**	47

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Provision for the PRC income tax has been made at the applicable rate on the estimated assessable profit for the year for each of the Group's subsidiaries. The applicable rate is principally 25% (2014: 25%).

8 DIVIDENDS

No dividend was paid in 2015 and 2014.

9 LOSS PER SHARE

(a) Basic

Basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2015	2014
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(205,551)**	(393,523)
Weighted average number of ordinary shares in issue *(thousands)*	**1,248,200**	1,248,200

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

Trading of the Company's shares were suspended in the stock exchange since 22 March 2013, since then the fair value of ordinary shares did not exceed exercise price of the share option, thus it did not have any dilutive effect. (2014: no dilutive effect)

10 TRADE AND OTHER RECEIVABLES

	2015	2014
	HK$'000	*HK$'000*
Trade receivables	**104,693**	160,627
Notes receivable	**7,406**	1,392
Less: allowance for impairment of trade receivables	**(14,520)**	(11,189)
Trade receivables – net	**97,579**	150,830
Prepayments	**11,815**	25,200
Other receivables	**62,013**	72,440
Less: allowance for impairment of other receivables	**(13,843)**	(13,579)
	157,564	234,891

The Group grants a credit period up to 180 days to its customers. The ageing analysis of the trade receivables is as follows:

	2015	2014
	HK$'000	*HK$'000*
Up to 3 months	**54,430**	38,691
3 to 6 months	**15,105**	47,940
6 months to 1 year	**13,828**	37,194
1 year to 2 years	**6,740**	11,148
Over 2 years	**14,590**	25,654
	104,693	160,627

As of 31 December 2015, trade receivables of HK$24,115,000 (2014: HK$62,807,000) were past due but not impaired. The ageing analysis of the trade receivables were past due but not impaired is as follows:

	2015	2014
	HK$'000	*HK$'000*
6 months to 1 year	**13,319**	36,838
1 year to 2 years	**6,405**	11,148
Over 2 years	**4,391**	14,821
	24,115	62,807

As of 31 December 2015, trade receivables of HK$14,520,000 were impaired (2014: HK$11,189,000). The amount of the provision was HK$14,520,000 as of 31 December 2015 (2014: HK$11,189,000). The individually impaired receivables mainly relate to wholesalers. The ageing of these receivables is as follows:

	2015	2014
	HK$'000	*HK$'000*
Up to 3 months	**2,688**	–
3 to 6 months	**789**	–
6 months to 1 year	**509**	356
1 year to 2 years	**335**	–
Over 2 years	**10,199**	10,833
	14,520	11,189

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The fair value of trade receivables approximates their carrying values.

11 TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Trade payables	**326,104**	299,090
Advance from customer	**153,727**	240,511
Amounts due to Tsinlien (a)	**35,460**	31,988
Payroll payable	**17,264**	20,733
Other tax payables	**10,017**	7,306
Others	**137,653**	183,059
	680,225	782,687

(a) The amounts due to Tsinlien Group Company Limited ("**Tsinlien**") are the emoluments of certain directors since 2004, who are also directors/senior management of Tianjin Food Group Co. Ltd. (2014: Tianjin State Farms Agribusiness Group Co. Ltd.). Both Tsinlien and Tianjin Food Group (2014: Tianjin State Farms Agribusiness Group Co. Ltd.) are owned by State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government ("**Tianjin SASAC**"). These directors emoluments will be paid to them through Tsinlien.

At 31 December 2015, the ageing analysis of the trade payables based on invoice date was as follows:

	2015	2014
	HK$'000	*HK$'000*
0-30 days	**97,755**	90,782
31-90 days	**26,733**	32,204
Over 90 days	**201,616**	176,104
	326,104	299,090

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers were engaged to audit the consolidated financial statements of the Group and a qualified opinion was issued. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2015:

"Basis for Qualified Opinion

1. Scope Limitations Relating to Findings of the Investigation

As a result of the matters identified in an independent investigation ("**Investigation**") commissioned as described in note 2.2 to the consolidated financial statements, we had planned to conduct extended procedures in the audit of the Group's consolidated financial statements as at and for the year ended 31 December 2014 (the "**2014 Audit**"). There were scope limitations encountered in the 2014 Audit due to the loss of substantial accounting records and supporting documents in relation to sales transactions, discrepancies in inventories as well as recognition and classification of selling expenses. Because of the above scope limitations, we were not able to determine whether any adjustments to the Group's sales, cost of sales, selling and other expenses, and the related tax impacts for the year ended 31 December 2014, together with the related receivables and payables as at that date, were necessary.

The Group has taken into account of the findings of the Investigation when it prepared its consolidated financial statements as at and for the year ended 31 December 2015 as described in note 2.2 to the consolidated financial statements. As the scope limitations encountered in the 2014 Audit in relation to the Group's consolidated financial statements as at and for the year ended 31 December 2014 remained unresolved up to the date of this report, we were not able to obtain sufficient appropriate audit evidence and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether any adjustments to the related receivable, payable balances and retained earnings as at 1 January 2015 were necessary. Since these opening balances of the consolidated balance sheet affect the determination of the Group's financial performance and cash flows, we were unable to determine whether adjustments to the consolidated income statement and consolidated cash flows statement for the year ended 31 December 2015 were necessary.

2. Impairment of Property, Plant and Equipment

As described in note 15 to the consolidated financial statements, the Group's consolidated balance sheet included property, plant and equipment with a carrying amount of HK$317,788,000 at 31 December 2015.

During the years ended 31 December 2014 and 2015, the Group has been making losses and incurring operating cash outflows that were considered to be indicators of impairment. However, the directors did not carry out an impairment assessment of its property, plant and equipment at 31 December 2014 because the directors were unable to estimate the recoverable amounts of these assets as at the same date due to the loss of the relevant records and documents.

The directors carried out an impairment assessment of its property, plant and equipment at 31 December 2015 and recognised HK$82,317,000 as an impairment charge to the consolidated income statement for the year ended 31 December 2015. Since there had been indicators of impairment for the Group's property, plant and equipment in the past years, the directors believed that the impairment might have happened in and/or prior to 2015. However, the directors were not able to quantify the impact of the appropriate impairment charges that should be recorded in and prior to 2015 due to the loss of the relevant records and documents. There were no alternative audit procedures that we could perform to enable us to determine the amount of adjustment, if any, to the impairment provision charged to the Group's consolidated income statement for the year ended 31 December 2015.

Qualified Opinion

In our opinion, except for the possible effects on the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance."

Management response on Qualified Opinion

As at the date of this announcement and based on the current available information, the directors consider that the abovementioned matters described in the Basis for Qualified Opinion paragraphs solely affect the auditors to determine whether any adjustments to the consolidated income statement and consolidated cash flows statement for the year ended 31 December 2015 were necessary and have no further impact on the preparation of the consolidated financial statements of the Company for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the year ended 31 December 2015 decreased by 6.3% to HK$627.2 million (2014 – HK$669.3 million) and the Group's loss attributable to owners of the Company declined to HK$205.6 million (2014 – HK$393.5 million), representing a decrease of 47.8%.

Loss per share of the Company was HK$16.47 cents per Share (2014 – HK31.53 cents per Share) based on the weighted average number of 1,248 million Shares (2014 – 1,248 million Shares) in issue during the year. There was no potential dilutive share for the year ended 31 December 2015.

The decline in loss attributable to owners of the Company in 2015 was mainly attributable to i) an increase in gross profit margin owing to less provision for impairment in inventories though there is a decrease in revenue; and ii) a decrease in distribution expenses due to the cost saving following the effective implementation of cost control policy.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. Our total revenue decreased by 6.3% to approximately HK$627.2 million in 2015 from approximately HK$669.3 million in 2014. The decrease in revenue was mainly attributable to (1) government policy of restrictions on entertainment and hospitality; and (2) impact of economic slowdown in China and imported wines.

The Group's average ex-winery sales price of red and white wine products during the year was lower than the average price of HK$24.3 per bottle (750ml) in 2014, as a result of shifting the sales mix to low-to-medium end products. Since consumers in the PRC have a preference for red wines, the Group is able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wines is generally higher than that of its white wines.

Cost of sales

The following table sets forth the major components of our cost of sales (before provision for impairment in inventories) for the year:

	2015	2014
	%	%
Cost of raw materials		
– Grapes and grape juice	**42**	39
– Yeast and additives	**2**	2
– Packaging materials	**19**	18
– Others	**1**	2
Total cost of raw materials	**64**	61
Manufacturing overheads	**22**	27
Consumption tax and other taxes	**14**	12
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 42% of the Group's total cost of sales, representing an increase of 3% from approximately 39% in 2014, due to the increase in purchase of grapes and grape juice. The total cost of packaging materials to the Group's revenue increase during the year as compared with 2014.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the year, manufacturing overheads as a percentage of revenue decreased as compared with 2014 mainly due to decreasing labour costs, depreciation and other overheads absorbed as a result of more utilization of production capacity.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin increased to 21% in 2015 (26% before provision for inventories included in cost of sales) from 7% in 2014, mainly as a result of the decrease in impact of provision for impairment in inventories which were unsuitable for sales in the future.

The gross margin of red wine products and white wine products in 2015 were 19% and 27% (24% and 29% before provision for impairment in inventories included in cost of sales) respectively (2014 – 3% and 25% (11% and 33% before provision for impairment in inventories included in cost of sales) respectively).

Other income, gains and losses

Other income, gains and losses for the year ended 31 December 2015 decreased by 31% to HK$7.0 million (2014 – HK$10.2 million), mainly attributable to decrease in government grant but offset by a write-off of long-aged trade and other payables and advance from customer in the year.

Distribution expenses

Distribution expenses principally include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the year, distribution expenses accounted for approximately 22% (2014 – 44%) of the Group's revenue. The significant decrease in the percentage was primarily due to the distribution cost saving following the effective implementation of cost control policy. In particular, the advertising and market promotion expenses accounted for approximately 5% (2014 – 19%) of the Group's revenue. During the year, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotions with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that our promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expenses, provision for impairment and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for 32% (2014 – 24%). This percentage increased because of the provision for impairment in fixed assets of HK$82 million during the year but offset by decreases in consultancy and professional fee, employee benefit expenses and other incidental expenses.

Income tax expense

Under the current laws of the Cayman Islands and the British Virgin Islands ("**BVI**"), neither the Company nor its subsidiaries incorporated in the BVI is subject to tax on its income or capital gains. In addition, any payment of dividends by them is not subject to withholding tax under those jurisdictions.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. The decrease in income tax expense was because there were no adjustments in respect of prior years during the year.

Cash flow

In 2015, operating activities were the Group's main source of cash outflow.

The increase in cash outflow derived from operating activities from HK$11.1 million in 2014 to HK$48.4 million in 2015 was mainly attributable to increase cash used in changes in working capital and more income tax paid.

Net cash outflow in investing activities amounted to approximately HK$72.0 million (2014 – HK$55.4million), primarily related to increase in restricted deposits held at bank for obtaining bank acceptance bill.

Net cash generated from financing activities was primarily attributable to net proceeds from borrowings amount to approximately HK$73.6 million (2014 – HK$5.4 million).

Financial management and treasury policy

As at 31 December 2015 except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("**RMB**"). The Group has remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Company does not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and in a net cash position net of borrowings at fixed rates, the Group is exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group's investment policy is to ensure the investment of uncommitted funds achieves the highest practicable returns while heeding the need to preserve capital and assure liquidity.

Business review

Sales analysis

A) Distributorship

Despite the decrease in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix further to high end products during the year ended 31 December 2015, the sales revenue has still recorded a decrease compared with last year mainly because of (1) government policy of restrictions on entertainment and hospitality; and (2) impact of economic slowdown in China and imported wines. The Group is implementing a reform on its sales and distribution model intended to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancing the effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen our direct control over the sales channels, thereby enhancing efficiency and effectiveness.

The total number of bottles of wine sold decreased from approximately 27.5 million in 2014 to approximately 26.5 million in 2015. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 78% of the Group's revenue for the year (2014 – 79%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group devoted significant resources to continue and accelerate the expansion and to strengthen our nationwide and extensive sales and distribution network during the year. This network supports sales of the Group's products throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC. We have also extended the sales network to other regional markets.

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium to high end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers with an appreciation for fine wines by offering Dynasty's premium high end products. Sales of premium wine products were greeted enthusiastically during the year. Moreover, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States of America, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries more than 520 imported products under approximately 100 brands. We believe that with the trend of increasing wealth and the disposable income of consumers aspiring to a higher status as well as the pursuit of upper class enjoyment, the demand for premium Dynasty and imported wines should increase and become major growth drivers for our future development. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the high end market.

B) Retail shops

To cater for different needs and preferences of our customers, the Group as at 31 December 2015 had 134 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and our imported wines to customers directly. The contribution from the sales at the retail shops was relatively insignificant to our revenue during the year. However, we strongly believe that through these sales channels and our network we can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time we could also expand our sales presence, extend our market influence, bring greater awareness to the brand and consolidate our leading presence in the PRC because retail shops are amongst the best vehicles to communicate our brand image and message, and to enhance customers' experience of buying and drinking wines. We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy to increase the number of similar establishments in appropriate locations. During the year under review, 134 franchised retail shops were opened by the end of the year.

The following table sets out the number of franchised retail shops by regions as at 31 December 2015:

Region	**Number of franchised retail shops**
South-Central region	80
Eastern region	26
North-West region	1
North-East region	4
Northern region	23
Total	134

C) Online sales

The Group has launched an e-commerce business by setting up a convenient online platform – www.i9wang.com (王朝愛酒網) and joined Tmall (天貓商城) in 2015 to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at this website for Dynasty wines and the imported wines we carry anywhere and anytime. Since the operating cost of the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the year, we are optimistic about the prospects of the business as research indicates that the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following the successful e-commerce model in overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, we have more than 10 major grape juice suppliers with whom we have enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity is a high priority of the Group. Thus, it continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with our quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

Production capacity

In 2010, the Group completed the construction of new production and research and development facilities in its Tianjin winery increasing its annual production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The expansion has enabled the Group to promptly response to market demand and further enhance the overall cost effectiveness in term of unit cost in the long run and has provided a better platform for sustainable earnings growth after the reform.

Prospects and Future Plans

The Group expects business environment will be more challenging in 2016. Going forward, the Group will continue to expand its sales and distributors network especially in regions where it has low market presence and areas of high potential for growth.

Human resources management

Quality and dedicated staff are the most important assets of the Group and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees so that they identify and contribute in unison to our corporate objectives. To this end, we offer competitive remuneration packages commensurate with market practices and industry levels, and provide various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 608 (including directors) in Hong Kong and the PRC as at 31 December 2015. The decrease in manpower has occurred mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the directors' fees) for the year ended 31 December 2015 amounted to approximately HK$152.1 million (2014 – HK$170.2 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations and the long-term growth of the Group. As at 31 December 2015, 200,000 share options were granted and outstanding under the scheme.

Liquidity and financial resources

The liquidity and financial position of the Group remain intact as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2015, the Group's cash and cash equivalents, and fixed deposits amounted to HK$80.9 million. It has sufficient financial resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK$437.1 million (total borrowings, trade and other payables less cash and cash equivalents), with total equity of the Group amounting to approximately HK$488.3 million as at 31 December 2015 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debt to total capital (net debt and total equity), as at 31 December 2015 was 47% (2014 – 35%).

Capital structure

The Group had borrowing of HK$66.5 million and was in a net cash and liquid position as of HK$14.4 million at 31 December 2015, reflecting its intact capital structure. We expect our cash with bank facilities to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2015, the market capitalisation of the Company was approximately HK$1,797 million. Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and will remain suspended until further notice.

Capital commitments, contingencies and charges on assets

As at 31 December 2015, there are no capital expenditure contracted for at the end of the year but not yet incurred. The Group had no material contingent liabilities. Inclusive borrowings are bank borrowings of approximately HK$47.7 million, which are secured by the land and buildings of a subsidiary of approximately HK$217.8 million.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2015, the Group had not made any other material acquisitions or disposal of subsidiaries and associated companies.

Event after the reporting period

The Group planned to dispose a chateau and related facilities held by one of its subsidiaries at a consideration of RMB400 million, for details, please also refer to Company's announcement dated 27 June 2017.

Dividend

The directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2015.

Purchase, sale or redemption of shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares of the Company during the year.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code for directors' securities transactions (the "**Model Code**"). The Company has made specific enquiry of all directors and that all the directors have confirmed their compliance with the required standards set out in the Model Code regarding directors' securities transactions throughout the financial year ended 31 December 2015.

Compliance with the Code on Corporate Governance Practice

Saved as disclosed below, none of the directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules (the "**Code**") for the year ended 31 December 2015. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period from 31 December 2015 to the date of announcement, the number of independent non-executive directors of the Company fell below one-third of the Board. As such, the number of independent non-executive directors of the Company cannot represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

As a result of the internal of Investigations, the Group has breached the financial reporting provisions under the Listing Rules in respect of (i) announcing the annual/interim results for the year ended 31 December 2015 and for the six-month period ended 30 June 2015; (ii) publishing the related annual/interim reports for the year ended 31 December 2015 and for the six-month period ended 30 June 2015; and (iii) convening an annual general meeting for the financial year ended 31 December 2015.

Audit committee

The audit committee comprises of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2015 in conjunction with the Company's auditor.

In addition, a review of the internal control system of the Group including the findings shown in the Final Investigation Report by an internal control advisor is in progress. Further announcement will be made by the Company as and when appropriate.

Scope of work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of annual results and annual report on the website of the Company and of the Stock Exchange

This annual results announcement, required by Appendix 16 of the Listing Rules, is published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange.

The annual report of the Company for the year ended 31 December 2015, which contains the detailed results and other information of the Company for the year ended 31 December 2015 required pursuant to Appendix 16 of the Listing Rules will be dispatched to Shareholders and published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

Annual general meeting

The notice of the annual general meeting ("**AGM**") will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course.

Acknowledgement

I would like to take this opportunity to acknowledge the support of my Board members and to commend them for their sage guidance and the enthusiasm they have demonstrated.

I would also like to express my sincere gratitude to our valued shareholders, customers, distributors, grape growers, suppliers, business associates and all other stakeholders who have supported us through the years.

Thanks also must go to our staff and the management team who have shown great dedication and teamwork throughout these difficult times.

Suspension of trading

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 22 March 2013, and will remain suspended until further notice. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. The publication of this announcement does not warrant any approval from the Stock Exchange on the resumption of trading of the Shares. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.

By order of the Board
Mr. Hao Feifei
Chairman

Hong Kong,
8 December 2017

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Hao Feifei, Mr. Yin Jitai and Mr. Sun Yongjian, five non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, Ms. Shi Jing, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive directors, namely, Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee.